

A CONCEPTUAL PAPER ON FINANCIAL RISK MANAGEMENT BASED ON LITERATURE REVIEW

By

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Abstract

Money is a very volatile term. It can either propel the industry to greater heights or it can diminish the existence of the industry. Firms throughout the world take billions dollar decision every second and these so-called decisions will help the firm to be at its peak of dominating the market they are operating in or can go sideways for the firm if not measured correctly. Also, the biggest of the factors that basically altered the course of action of making a risk managed decision from the last three years is Covid19. There are many different risks involved while making these decisions like interest-rate risk, exchange rate risk, market risk etc. The financial derivative contracts such as forwards, swaps, and options, provide managers with a whole series of instruments to manage these risks. However, the question how companies are managing and measuring financial risk is remaining partially answered as it has invited a lot of debate. The researcher has tried to review and summarize the meaning, uses, types, impact of financial risk management for the firms in INDIA. The data collection has been done from the secondary sources.

Keywords: *financial risk management, pandemic Covid-19, financial derivatives, money.*

Introduction

When the policies of Liberalization, privatization and globalization were introduced it brought a wave of opportunities and as we all know that where there are opportunities also lies risks. These three policies laid the foundation of the blooming economy of INDIA. Globalization opened the doors for the other players to capture the Indian market. Let us understand first what the term Investment mean it the movement of funds/money to purchase something. Example: - I bought an iPhone for \$1100, here iPhone is an investment for me. Also,

we do not know that whether it is a good or a bad investment. Similarly, the firms do investment for the business to grow and prosper on a huge scale in billions of dollars. Foreign Direct Investment (FDI) done by the companies requires the movement of huge funds for setting up in a different market. These requires some techniques and research to measure the risk for entering the new market.

Risk management involves identifying, analyzing, and accepting or mitigating uncertainty in investment decisions. Put simply, it is the process of monitoring and dealing with the financial risks associated

with investing. Risk is an inseparable factor from return in investment world.

Risk Identification

Risk identification is the process of identifying and assessing threats to an organization, its operations, and its workforce. For example, risk identification may include assessing IT security threats such as malware and ransomware, accidents, natural disasters, and other potentially harmful events that could disrupt business operations.

Risk Analysis and Assessment

Risk analysis involves establishing the probability that a risk event might occur and the potential outcome of each event. Risk evaluation compares the magnitude of each risk and ranks them according to prominence and consequence.

Risk Mitigation and Monitoring

Risk mitigation refers to the process of planning and developing methods and options to reduce threats to project objectives. Risk mitigation also includes the actions put into place to deal with issues and effects of those issues regarding a project.

Risk management is a nonstop process that adapts and changes over time. Repeating and continually monitoring the processes can help assure maximum coverage of known and unknown risks.

There are different types of financial risks involved while analyzing the market: -

1. Operational Risk
2. Foreign Exchange Risk
3. Credit Risk
4. Reputational Risk

Operational Risk

Operational Risk is the core of all business risks and is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. These are risks that impact the operation of a business directly or indirectly. The comprehensive management of such risks is called operational risk management and includes measuring, hedging, and monetizing any or several operational risk types.

Operational risk examples

- (i) External events - political changes, cyber-attacks, economic crisis etc.
- (ii) Systems - software issues, electronic or non-electronic failure damage etc.
- (iii) Process - low process quality (ex. Delegated to much work to the subordinate results in cost and time issues due to organizational functions.), communications leakages inside as well a outside etc.
- (iv) People – Wrong decisions made by the Board, Internal Fraud etc.

Foreign exchange risk

As the name suggests Foreign Exchange Risk is also known as currency risk, FX risk or exchange rate risk. It is incurred when a financial transaction is made in a currency other than the operating

currency – which is often the domestic currency – of a business. The risk arises because of unfavorable changes in the exchange rate between the transactional currency and operating currency. Foreign exchange risk can also affect investors, who trade in international markets, and businesses engaged in the import/export of products or services to multiple countries.

Types of foreign exchange risk

- I. *Transaction*: Transaction risk is the risk faced by a company when making financial transactions between jurisdictions. The risk is the change in the exchange rate before transaction settlement. Essentially, the time delay between transaction and settlement is the source of transaction risk.

Transaction risk can be mitigated using forward contracts and options.

- II. *Translation*: Translation risk, also known as translation exposure, refers to the risk faced by a company headquartered domestically but conducting business in a foreign jurisdiction, and of which the company's financial performance is denoted in its domestic currency. Translation risk is higher when a company holds a greater portion of its assets, liabilities, or equities in a foreign currency.
- III. *Economic*: Economic risk, also known as forecast risk, is the risk that a company's market value is impacted by

unavoidable exposure to exchange rate fluctuations. Such a type of risk is usually created by macroeconomic conditions such as geopolitical instability and/or government regulations.

Credit Risk

According to the Basel III framework, credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. In more concise meaning it is the uncertainty faced by the lender. Lenders gauge creditworthiness using the "5 Cs" of credit risk—credit history, capacity to repay, capital, conditions of the loan, and collateral.

Types of credit risks

Default Risk

It is a scenario where the borrower is either unable to repay the amount in full or is already 90 days past the due date of the debt repayment. Default risk influences almost all credit transactions—securities, bonds, loans, and derivatives.

Concentration risk: Concentration risk is the potential for a loss in value of an investment portfolio or a financial institution when an individual or group of exposures move together in an unfavorable direction. The implication of concentration risk is that it generates such a significant loss that recovery is unlikely. The portfolio will be liquidated,

or the institution will face bankruptcy. When a financial institution relies heavily on a particular industry, it is exposed to the risk associated with that industry. If the industry suffers an economic setback, the financial institution incurs massive losses.

Country risk: Country risk denotes the probability of a foreign government (country) defaulting on its financial obligations because of economic slowdown or political unrest. Even a small rumor or revelation can make a country less attractive to investors.

Downgrade risk: It is the loss caused by falling credit ratings. Looking at the credit ratings, market analysts assume operational inefficiency and a lower scope for growth. It is a vicious cycle; the speculation makes it even harder for the borrower to repay.

Institutional risk: Borrowers may fail to comply with regulations. In addition to the borrower, contractual negligence can be caused by intermediaries between the lenders and borrowers.

Reputational Risk: As we all know in today modern world reputation and social status plays out a crucial role building up relations in the market. One vague step can either make you or break you into the market and with drastically affect the social image and market share of the company. Reputational Risk is also known as Reputation Risk and it is the loss of social capital, market share or financial capital arising from damage to

an organization's reputation. Reputation Risk is exceedingly difficult to predict or realize financially, as Reputation is an intangible asset. It is however intrinsically tied to Corporate Trust and is the reason why Reputation damage can hurt an organization financially.

Ex. Maggie lost its image and trust of its consumers when the news broke out that the product contains some amount of lead which resulted in the backlash and decrease in market domination.

Risk management is the process of identifying, assessing, and controlling financial, legal, strategic and security risks to an organization's capital and earnings by the use of different techniques we can foresee the risk and may prevent a mishap.

There are five basic techniques used to manage the risk: -

- a) Avoidance
- b) Retention
- c) Spreading/Sharing
- d) Loss prevention and Reduction
- e) Transfer (through insurance and contracts)

a) Risk Avoidance

Avoidance is method for mitigating risk by not participating in activities that may negatively affect the organization. There are times when it becomes difficult to avoid the risk, but the possibility should not be overlooked. For ex: - the corporation can avoid expanding

operations to a geographical area that has high political and regulatory uncertainty.

b) Risk Retention

Risk retention is the practice of setting up a self-insurance reserve fund to pay for losses as they occur, rather than shifting the risk to an insurer or using hedging instruments. The process of accepting responsibility for a particular risk; for example, a corporation may accept risks of volatile input costs without using any hedging or insurance.

c) Risk Spreading

When risks are shared, the possibility of loss is transferred from the individual to the group. A corporation is a good example of risk sharing — a number of investors pool their capital and each only bears a portion of the risk that the enterprise may fail.

d) Loss prevention and Reduction

Where risk is not avoided or eliminated entirely, but attempts are made to reduce the frequency and/or severity of a potential loss by use of typical safety control techniques such as solutions to control risk at source, procedures, and behavioral measures.

e) Transfer (through insurance and contracts)

Risk transfer, in its true essence, is the transfer of the implications of risks from one party (individual or an organization) to another (third party or an insurance

company). Such risks may or may not necessarily take place in the future. Transfer of wagers can be executed through buying an insurance policy, contractual agreements, etc.

Insurance - In an insurance mechanism, an individual or company can purchase an insurance policy from the preferred insurance company and safeguard itself from the implications of financial risks in the future.

Derivatives - Derivatives in finance are financial instruments that derive their value from the value of the underlying asset. It can be defined as a financial product that attains its value from a financial asset or an interest rate. Firms mostly buy derivatives to protect against financial risks like the currency exchange rate, etc.

Contracts with an indemnification clause - Individuals or organizations also use contracts with indemnification clauses for risk transfers. Contracts with such a clause ensure the transfer of financial risks from the indemnitee to the Indemnitor. In such an arrangement, the future economic losses shall be borne by the Indemnitor.

Outsourcing - Outsourcing is a type of risk transfer in which a process or project is outsourced to transfer various risks from one party to another.

Impact of Pandemic COVID -19 on economy

Covid-19 the latest pandemic that disrupted the functioning of the world and forced the economy to operate at its lowest state. Aftermath of the pandemic, the evaluation of risk management drastically changed. Now the markets are much more volatile in nature as it can both create a favorable as well as unfavorable outcome for the companies at a much sensitive rate. The COVID-19 pandemic has had an immediate impact on economic activity, company and individual income, and asset valuation etc. The International Monetary Fund (IMF) has proclaimed the world to be in recession! The situation, according to the Bank of England, is worse than the financial crisis of 2008. The magnitude of the economic damage is unparalleled, with far-reaching implications for the global economy. Experts believe that the economic impact would permanently alter several industries, and that the transition to a new normal will take several years. The banking industry is at the heart of this crisis, with heightened credit risk, and will require considerable changes in risk measurement, loss estimation, and stress testing methods, systems, and models. The following are the effects of Covid-19 pandemic. Workforce management now requires a much critical viewpoint to be worked upon. Industries and economy were operating in a stagnant manner this pandemic force to introduce a paradigm shift in the functioning.

Literature Review

All firms dealing in multiple currencies face a risk of unanticipated gains/ losses due to sudden changes in exchange rates. Because of this a lot of research had been conducted on financial risk management. The literature on financial risk has grown rapidly more specifically after the financial crises in 1990s. These crises have made it clear that exchange rates may have significant real economy effects. There are many theories of why companies manage risk, including foreign exchange risk and interest rate risk. Coping with risk has become an important managerial function, especially after the increased volatility in the foreign exchange market in recent years. Different financial analysts and experts have their different opinions regarding financial risk management. Based on those studies and research articles, various strategies have been suggested with the help of which multinational companies can manage their financial risk.

Comptroller's Handbook (1997)

Defined derivative as an instrument that primarily derive its value from the performance of underlying interest or foreign exchange rates, equity, or commodity prices. In this article, financial risk has been divided into 9 categories and various measurement and management techniques have been discussed to eliminate the effect of all these types of risks. Value-at-risk (VAR) is one of the most common methods used

by dealer banks to measure aggregate price risk. VAR is an estimate of the potential loss within a specified confidence interval in a portfolio's value over a defined holding period. In trading portfolios that are marked-to-market daily, VAR is usually translated into a potential reduction in the bank's future earnings. VAR is most valuable as a high-level management information tool because it reduces a bank's multiple price risks to a single number or to a small number of key statistics.

Shehzad L. Mian, (1997)

Provides empirical evidence on the determinants of corporate hedging decisions. He examines the evidence in light of currently mandated financial reporting requirements and, in particular, the constraints placed on anticipatory hedging. Corporations are exposed to uncertainties regarding a variety of prices. Hedging refers to activities undertaken by the firm to mitigate the impact of these uncertainties on the value of the firm. Data on hedging are obtained directly from disclosures made by 3,022 firms in their annual reports for 1992. As a result, this study does not suffer from the non-response bias typical of survey samples and yields results that are more readily generalizable to a broader set of firms. This study provides evidence on the models of the hedging decisions. The paper also examines whether the evidence is sensitive to classification of all derivative users as hedgers.

Ghose.T.P. (1998)

Conducted a study on VAR (Value at Risk). There are two steps in measuring market risk; the first step is computation of the Daily Earning at Risk; the second step is the computation of the VAR. He stated that price sensitivity could be measured by modified duration (MD) or by cash flow approach. He reviewed the various types of risks in relation to the different institutions. He opined that 'Managing risk' has different meanings for banks, financial institutions, and non-banking financial companies and manufacturing companies. In the case of manufacturing companies, the risk is traditionally classified as business risk and financial risk. Banks, financial institutions and non-banking financial companies are prone to various types of risks important of which are interest rate risk, market risk, foreign exchange risk, liquidity risk, country and sovereign risk and insolvency risk.

Suseela Subramanya (1998)

Commented on the risk management processes of banks. She revealed that banks need to do proper risk identification, classify risks and develop the necessary technical and managerial expertise to assume risks. Embracing scientific risk management practices will not only improve the profits and credit management processes of banks, but will also enable them to nurture and develop mutually beneficial relationships with customers. She concluded that the better the risk information and control system

the more risk a bank can assume prudently and profitably.

Terry.J.Watsham (1998)

Discusses the nature of the risks associated with derivative instruments, how to measure those risks and how to manage them. He stated that risk is the quantified uncertainty regarding the undesirable change in the value of a financial commitment. He opined that an organization using derivatives would be exposed to risks from a number of sources, which are identified as market risk, credit or default risk, operational risk and legal risk. He revealed that there is 'systemic risk' that the default by one market participant will precipitate a failure among many participants because of the inter-relationship between the participants.

George Allayannis (1998)

Examines whether firms use foreign currency derivatives for hedging or for speculative purposes. To identify a firm's hedging or speculative behavior in the data, the researcher has examined the effect of foreign currency derivative use on its exchange-rate risk (exposure) and the determinants of the amount of derivative use. Using the sample of all S&P 500 non-financial firms for 1993, the researcher found that a firm's exchange-rate exposure is positively related to its ratio of foreign sales to total sales, and negatively related to its ratio of foreign currency derivatives to total assets. These associations are significant at the 1%

level and robust to alternative time periods, exchange-rate indices, and estimation techniques. The evidences given by the researcher strongly supports the hypothesis that firms use foreign currency derivatives, not to speculate in the foreign exchange markets, but as protection against exchange-rate movements. The study found a strong negative association between foreign currency derivative use and firm exchange-rate exposure, suggesting that firms use derivatives as a hedge rather than to speculate in the foreign exchange markets.

Gregory W. Brown (2000)

Investigates the foreign exchange risk management program of HDG Inc. (pseudonym), an industry leading manufacturer of durable equipment with sales in more than 50 countries. The analysis relies primarily on a three-month field study in the treasury of HDG. Precise examination of factors affecting why and how the firm manages its foreign exchange exposure are explored through the use of internal firm documents, discussions with managers, and data on 3110 foreign-exchange derivative transactions over a three-and-a-half-year period. Results indicate that several commonly cited reasons for corporate hedging are probably not the primary motivation for why HDG undertakes a risk management program. Using a field study and proprietary data, this paper conducted a detailed investigation of a firm's hedging

operations and of its motivation for engaging in financial risk management

Graciela Mo guillansky (2003)

Studies the currency risk management of multinational companies with investments in Latin American countries. The analysis is centered on episodes of currency or financial shocks, searching into the behavior of the financial management of a firm expecting a significant devaluation. This article deals with the latter type of analysis, that is, the financial management of multinational companies with investments in Latin America. The study makes a distinction between the degree of reversibility of the physical investment originated in foreign direct investment and the flow of funds linked to it. The analysis done in this paper was carried out by interviewing financial managers of multinational companies from different sectors, with investments in Latin America and headquarters in the United Kingdom and Spain and by analyzing some surveys on financial risk management in developed countries. Sixteen financial managers were interviewed from twelve multinational companies. These included the mining, oil & gas industries, the energy and telecommunications sectors; the food industry, and financial corporations. Multinational companies having business in many countries and regions informed that they always hedge against transaction exposure but they very seldom hedge balance sheet account or translation exposure, that is the impact

of currency volatility in the value of assets and liabilities.

Petia Topalova (2004)

Uses firm-level data to examine the performance of India's nonfinancial corporate sector since 1989 and evaluate its financial vulnerabilities. It gives an overview of India's corporate sector through 2002, including its size and composition, regulatory framework, and recent reforms. The data used in this analysis are from a firm level database on India's corporate sector, compiled by the Centre for Monitoring the Indian Economy, a private company in India. This study concludes that despite the weakening of the corporate sector in recent years, most indicators are still at comfortable levels and there were signs of improvement in almost all indicators in 2002, the last year in our sample, and in 2003, with the soft interest rate regime and ongoing economic recovery. Stress tests suggest that the financial health of the corporate sector would be moderately affected by adverse interest rate shocks.

Seema Menon (2005)

Discussed the use of foreign exchange derivatives (FXD) and its benefits to U.S. multinational corporations (MNCs). She examined 20 U.S. MNCs' foreign currency risk management practices from 1995 through 2000. The companies selected were chosen from the Forbes Global 2000 list. Firm-specific data used in the analysis, such as total assets, notional

amounts of FXDs and foreign sales, was obtained from company annual reports. The notional amounts of FXDs are intended to measure the company's extent of involvement in transactions that have off-balance-sheet risk. The study is descriptive. Linear regression model has been applied to do hypothesis testing. Hypotheses were developed and tested to explain the differences in the notional amounts of FXD used in comparison to the changes in foreign currency exposure. The study confirmed that the use of FXD among U.S. MNCs is positively correlated with their level of foreign currency exposure.

Aline Muller (2005)

Determines what effects this derivatives usage has on the foreign exchange risk exposure of 471 European non-financial firms. This study analyses as of year-end 2003 the determinants of corporate foreign currency derivative (FCD) usage and its role in reducing foreign exchange risk exposure for European non-financial firms established in 4 distinctive sample countries: the U.K, Germany, the Netherlands and Belgium. Information on notional as well as fair values of currency hedging positions is sourced from "The notes to the annual reports". In a first stage, this article is concerned with the motives that lead firms to use currency derivatives as well as the factors that affect their decision on how much to hedge with these instruments. In a second stage, the extent to which this usage affects their foreign exchange risk

exposure is thoroughly investigated. The major contribution of this paper is that it provides a unique insight in European firms' hedging strategies as well as an in-depth analysis of the real impacts of these hedging strategies on firms' risk exposures.

Anuradha, Siva Kumar & Renu Sarkar (2006)

Attempts to evaluate the various alternatives available to the Indian corporates for hedging financial risk. Different types of foreign exchange exposures and risk management framework has been explained. This article suggests that with the help of derivatives like forward, future options swaps and foreign debt Indian firms can manage their risk. Data has been compiled for the period 2006-2007 from the annual reports of the Reliance industries, Maruti Udyog, Mahindra & Mahindra, Arvind Mills, Infosys, TCS and Dr. Reddy's Lab. By studying the use of hedging instruments by major Indian firms from different sectors, this paper concludes that forwards and options are preferred as short-term hedging instruments while swaps are preferred as long-term hedging instruments.

Asani Sarkar 2006

Finds that Derivatives markets have been in existence in India in some form or other for a long time. In the area of commodities, the Bombay Cotton Trade Association started futures trading in 1875 and, by the early 1900s India had

one of the world's largest futures industries. NSE has the highest volume (i.e., number of contracts traded) in the single stock futures globally, enabling it to rank 16 among world exchanges in the first half of 2005. Single stock options are less popular than futures. Index futures are increasingly popular, and accounted for close to 40% of traded value in October 2005. In terms of the growth of derivatives markets, and the variety of derivatives users, the Indian market has equaled or exceeded many other regional markets.

The Study of Madhu Vij (2008)

Aims to provide a perspective on managing the risk that MNCs face due to fluctuating exchange rates. This study employs questionnaire, survey and reports the findings of a survey of chief financial officers of Indian Companies conducted in 2008. The objective of this study is to investigate whether the CFOs had a clear understanding of the difference between translation, transaction and economic exposure. In addition, the study also concentrates on the hedging policies used by firms, the key factors that determine the decision to hedge and how frequently is the hedging policy reviewed. The results show that a majority of the companies review their hedging policies annually. Also, most of the companies surveyed use some form of internal control to minimize foreign exchange risk. Long dated and short dated forward exchange contracts are popular hedging techniques. Indian

companies currently hedge their risk by entering into foreign currency forwards, swap and options agreements in over-the-counter market (OTC) market. An exchange traded platform for currency futures is considered to be more transparent, efficient and accessible than the OTC market.

Sathya Swaroop Debashish (2008)

Concentrates on recent foreign exchange risk management practices and derivatives product usage by large non-banking Indian-based firms. The study is exploratory in nature and aims at an understanding the risk appetite and FERM (Foreign Exchange Risk Management) practices of Indian corporate enterprises. It is based on the objectives to ascertain the FERM practices, and product usage, of Indian non-financial corporate Enterprises, To know the attitudes, perceptions and concerns of Indian firms towards FERM, To understand the level of awareness of derivatives and their uses, among the firms and To ascertain the organization structure, policymaking and control process adopted by the firms, which use derivatives, in managing foreign exchange exposure. The main part of the Study deals with Indian corporate enterprises' awareness of and attitudes to foreign exchange risk exposure. The required data was collected through the pre-tested questionnaire administered on a judgment sample of 501 corporate enterprises, located in different parts of the country. In analyzing the responses, the Microsoft Excel Spreadsheet and the

Statistical Package for Social Sciences (SPSS) have been used. Factor Analysis, using Principal Component Method, was done wherever there was need to reduce variables into factors. Correlation analysis was also done. Among the 501 respondents, 266 companies (53%) reported using derivatives and the others are not using derivatives. Factor Analysis reveals that the main factor responsible for non-use of derivatives is “confused perceptions of derivatives use”, with its components, concerns about the appropriateness of derivatives in specific situations, risk of the products and general reluctance and fear. Then comes the technical and administrative factor comprising difficulty in pricing and policy constraints, followed by the cost effectiveness factor which questions the utility of derivatives, given the high costs involved.

Bjorn Dohring (2008)

Discusses exchange rate exposure in terms of transaction risk (the risk of variations of the value of committed future cash flows), translation risk (the risk of variations of the value of assets and liabilities denominated in foreign currency) and broader economic risk (which takes into account the impact of exchange rate variations on competitiveness). He argues that domestic-currency invoicing and hedging with exchange rate derivatives allow a fairly straightforward management of transaction and translation risk and discusses under which circumstances

their use is optimal. This study concludes that Euro area non-financial blue-chip companies systematically use financial derivatives to hedge “transaction risk”. As suggested by the literature on optimal hedging, hedge ratios seem to be close to 100% for firmly committed cash flows and lower for estimated or expected flows. Short maturities up to two years are most widespread for exchange rate forwards and options, while it is not unusual to see cross-currency swaps with maturities of a decade or more.

Mihir Dash (2008)

Deals with the impact of currency fluctuations on cash flows of IT service providers (who would be receiving foreign currencies), and explores various strategies for managing transaction exposure from this viewpoint. The risk management strategies considered for the study are: forward currency contracts, currency options, and cross-currency hedging. The cash flows for the study have been taken from a sample of one hundred and seventy-three selected projects of different IT companies. The effects of hedging foreign exchange risk using forward currency contracts, currency options, and cross-currency hedging on each of these cash flows were calculated and compared. The data for the study was collected through database and financial websites. The research period chosen was Jan. '07 to Dec. '07. The study is descriptive in nature. The results of the study suggest that the forward currency

hedging strategy yielded the highest mean cash flows and the highest mean percentage gain amongst the FOREX risk management strategies considered. The FOREX risk management strategies investigated in the study seem to be more suitable for fixed price projects (FPP) than for time and materials (T&M) projects, even though logically FOREX risk management strategies would be expected to perform better for T&M projects.

The paper of Mathias Hoffmann (2009)

Investigates the real exchange rate and real interest rate (RERI) relationship using bilateral U.S. real exchange rate data spanning the period 1978 to 2007. The empirical results are based on quarterly bilateral U.S. real exchange rates and real interest rate differentials vis-à-vis the other G7 countries: Japan, Germany, France, Italy, the United Kingdom and Canada. All data are sourced from the December 2008 issue of the IMF's International Financial Statistics (IFS). The researcher proposed interpreting the RERI by building on the VAR-based approach for present value models of Campbell and Shiller (1987). This involves taking the projection of the change in the real exchange rate from a bivariate VAR, consisting of the change in the real exchange rate and the real interest differential, and correlating it with the real interest differential. We argued that this kind of test is much closer in spirit to the RERI relationship

than many extant tests, and it produces measures of long-run expected changes in the exchange rate which are highly correlated with real interest rate differentials. Krishnan Sitaraman and Satish Prabhu (2010) described the currency future with mitigating exchange Rate risk with illustrative support. They have also showed the progress, operational aspect and new developments of currency futures in India. The paper also suggested introducing the currency option in the market.

Padmalatha Suresh (2010)

Has admitted that currency future helped the undernourished Indian financial markets in a big way and described how exchange traded futures are the answer to preventing systematic risks in the future. He also thanked to the RBI decision to extend the currency futures market to include three more currency pairs as earlier stated financial advisors were saying and appears that currency options, as natural extension at the currency future market, are also on the anvil.

Subrata Mukherjee (2011)

Discussed risk minimization techniques in the spot and derivative market. She analyzed the spot market transactions with the help of technical analysis and derivative market transactions by taking offsetting positions in the futures contracts. She said that risk can be

efficiently minimized with the help of portfolio diversification.

Objectives

To understand and give the theoretical insight on the concept of financial risk management and the different types of risks involved.

To understand the methods and techniques of financial risk management.

To map out the impact of pandemic covid-19 on the economy and changes in risk management approach.

Research Methodology

The researcher has framed this paper based on secondary data sources from various journals, books, articles, google scholar sources and research gate papers.

Findings

The study done by the researcher overviews the theoretical aspect of financial risk management and related issues from researchers' point of view. The different components of financial risk management and with the information gathered in this research it defines the criticality of risk management in industry as well as in economy. With the appropriate knowledge and skillsets possessed by organizational employees the industry can minimize the impact of the upcoming risk related repercussions. Risk management is a double-edged sword as it requires a proper and

thorough supervision with great set of skills and time to measure the risk and various prevention plans thus leading to much more favored outcomes for the industry and economy. The tools and techniques of the financial risk management should be adequately applied by the industry people to assist in various risk involved so that corrective measures can be taken into considerations at right time to overcome various hindrances in the smooth functioning of the industries.

Conclusion

The researcher found the meaning, different risks involved and the strategies to mitigate and may eliminate the risk relating to the financial decisions taken for the survival and growth of an industry. From the review of the literature, it is obvious that the majority of the studies have discussed about the financial risk management strategies which are being used by the various financial experts. Some of the studies are concerned whether the company's financial officers are aware regarding their transaction, translation and economic exposure or not. There is considerable evidence that the financial officers of the various companies are well aware regarding their transaction, translation and economic exposure. The researcher has also found some impact of the covid-19 pandemic on the financial risk management.

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To cite this article

Anurag Vashisht, & Meenakshi Kaushik. (2023). A Conceptual Paper on Financial Risk Management Based on Literature Review. *Sparkling International Journal of Multidisciplinary Research Studies*, 6(3), 1-16.

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